

# Qualifying Business or Community-Based Seed Capital Fund Tax Credit

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# Outline

- ▶ Description of Qualifying Business or Community-Based Seed Capital Fund (QBSC) Tax Credit
- ▶ Similar Tax Credits in Other States
- ▶ Statistics
- ▶ Iowa State University Analysis and Results

# Original QBSC Tax Credit

- ▶ Investments made in 2002 first qualified for the tax credit.
- ▶ Original program cap was \$10 million
- ▶ Program cap was depleted with investments made in 2007
- ▶ The three year delay in claiming the tax credit was initially enacted due to budgetary constraints at the time

## Other States with Similar Credits

- ▶ There are currently 22 states that have equity investment tax credits
- ▶ Credits rates vary from 50% in 6 states and 20% in 3 states
- ▶ Most states require that tax credit recipients be qualified investors as defined by the SEC

# Qualifying Business Investments

Year in Which Investment Was Made	Number of Qualifying Businesses Receiving Investments	Number of New Firms Receiving Investments	Amount of Investments Received	Tax Credits Issued
2002	6	6	\$1,248,150	\$249,630
2003	9	3	\$1,297,900	\$259,580
2004	8	2	\$2,596,241	\$369,242
2005	14	7	\$9,685,944	\$1,916,025
2006	17	10	\$18,984,330	\$3,677,271
2007	6	2	\$10,845,662	\$1,880,133
Total	60	30	\$44,658,227	\$8,351,881

Source: Iowa Department of Revenue

# Community-Based Seed Capital Fund Investments

Year in Which Investment Was Made	Number of Community-Based Seed Capital Funds Receiving Investments	Number of New Firms Receiving Investments	Amount of Investments Received	Tax Credits Issued
2002	2	2	\$582,445	\$116,489
2003	5	3	\$2,281,275	\$456,252
2004	6	1	\$2,338,061	\$467,612
2005	6	2	\$1,472,370	\$241,302
2006	5	0	\$581,668	\$116,443
2007	2	1	\$1,268,000	\$253,600
Total	26	9	\$8,523,819	\$1,651,697

Source: Iowa Department of Revenue

# QBSC Tax Credit Awards by Resident Status

Year in Which Investment Was Made	Residents of Iowa			Nonresidents		
	Number of Investors	Amount of Investments Received	Tax Credits Issued	Number of Investors	Amount of Investments Received	Tax Credits Issued
2002	116	\$1,830,345	\$366,069	*	*	*
2003	291	\$3,550,498	\$710,097	22	\$28,927	\$5,785
2004	405	\$4,633,691	\$776,738	126	\$300,611	\$60,116
2005	525	\$10,003,848	\$1,928,356	132	\$1,154,467	\$228,971
2006	702	\$16,197,405	\$3,119,995	79	\$3,368,593	\$673,719
2007	856	\$11,586,196	\$2,042,239	22	\$527,466	\$91,493
Total	2,895	\$47,801,983	\$8,943,494	381	\$5,380,064	\$1,060,084

\* To avoid disclosing individual taxpayer data due to small numbers, 2002 and 2003 information regarding nonresidents was combined.

Source: Iowa Department of Revenue

# Qualifying Business and Community-Based Seed Capital Fund Tax Credit Claims

Tax Year	Number of Claims	QBSC Tax Credit Claims	Average Claim
2005	70	\$218,753	\$3,125
2006	291	\$452,935	\$1,556
2007	413	\$488,312	\$1,182
2008	491	\$757,684	\$1,543
2009	747	\$1,259,135	\$1,686
2010	944	\$1,162,279	\$1,231
2011	523	\$508,443	\$972
2012	204	\$252,549	\$1,238
2013	118	\$142,472	\$1,207
Total	3,801	\$5,242,562	\$1,379

Source: Iowa Department of Revenue



# Timing of QBSC Tax Credit Claims

Year of Investment	Total Tax Credits Issued	Percent Claimed in First Year	Percent Claimed in Second Year	Percent Claimed in Third Year	Percent Claimed in Fourth Year	Percent Claimed in Fifth Year	Percent Claimed in Final Year	Amount Remaining
2002	\$366,119	59.75%	0.89%	3.15%	0.67%	0.82%	0.92%	33.79%
2003	\$715,832	56.49%	8.05%	1.31%	1.49%	0.38%	0.14%	32.15%
2004	\$836,854	45.54%	1.99%	2.28%	1.15%	0.24%	0.10%	48.71%
2005	\$2,157,327	32.13%	6.76%	5.81%	2.52%	1.21%	0.48%	51.09%
2006	\$3,793,713	28.22%	8.65%	5.02%	2.91%	1.89%		53.30%
2007	\$2,133,733	32.29%	11.98%	5.28%	2.67%			47.78%
<b>Average</b>		42.40%	6.39%	3.81%	1.90%	0.91%	0.41%	44.18%

Source: Iowa Department of Revenue

- ▶ Nonrefundable credit can be carried forward for five years after the first year of claim, any remaining unclaimed credit expires

# Unclaimed QBSC Tax Credits

Investment Year	No Tax Return Filed				Tax Return Filed			
	Iowa Residents		Nonresidents		Iowa Residents		Nonresidents	
	Number of Certificates	Total of Unclaimed Awards	Number of Certificates	Total of Unclaimed Awards	Number of Certificates	Total of Unclaimed Awards	Number of Certificates	Total of Unclaimed Awards
2002	7	\$8,870	0	\$0	26	\$67,713	0	\$0
2003	19	\$36,609	7	\$2,510	71	\$115,829	10	\$887
2004	31	\$37,471	72	\$4,450	115	\$134,939	32	\$6,715
2005	28	\$54,556	92	\$153,237	134	\$382,803	18	\$39,659
2006	29	\$174,610	19	\$157,435	193	\$721,110	39	\$321,066
2007	53	\$97,190	6	\$240	243	\$482,056	7	\$45,224
Total	167	\$409,306	196	\$317,872	782	\$1,904,450	106	\$413,551

Source: Iowa Department of Revenue

- ▶ 26% of credits awarded to residents were never claimed
- ▶ 69% of credits awarded to nonresidents were never claimed

# Investments by Type of Qualifying Business by Calendar Year

2-Digit Standard Industrial Classification Code		Year of Investment		Total
		2002-2004	2005-2007	
17	Construction Special Trade Contractors	\$402,500	\$1,736,499	\$2,138,999
28	Chemicals and Allied Products	\$0	\$5,801,752	\$5,801,752
29	Petroleum Refining and Related Industries	\$0	\$24,131,066	\$24,131,066
36	Electronic And Other Electrical Equipment And Components, Except Computer Equipment	\$2,294,841	\$734,120	\$3,028,961
50	Wholesale Trade - Durable Goods	\$0	\$250,000	\$250,000
51	Wholesale Trade - Non-durable Goods	\$0	\$492,057	\$492,057
54	Food Stores	\$0	\$79,295	\$79,295
73	Business Services	\$1,434,400	\$4,446,942	\$5,881,342
75	Automotive Repair, Services, and Parking	\$0	\$650,000	\$650,000
78	Motion Pictures	\$180,000	\$140,704	\$320,704
79	Amusement and Recreation Services	\$678,750	\$70,000	\$748,750
82	Educational Services	\$151,800	\$0	\$151,800
87	Engineering, Accounting, Research, Management, and Related Services	\$0	\$105,000	\$105,000
96	Administration of Economic Programs	\$0	\$578,500	\$578,500
	Unknown	\$0	\$300,000	\$300,000
Total		\$5,142,291	\$39,515,936	\$44,658,227

Source: Iowa Department of Revenue

# Firm Survival Analysis

- ▶ Analysis was performed by Iowa State University
- ▶ Compared Venture Capital firms that were approved to receive investments to new firms outside the program
  - 28 firms were approved and received qualifying investments
  - 24 firms were approved but did NOT receive any qualifying investments

# Firm Survival Analysis Results

- ▶ There was no difference in firm survival between the approved businesses that received investments and those that did not.
- ▶ Just over 70% of firms were still in business as of 2011 with an average firm age of 6 years
- ▶ Similar new Iowa firms outside the program had slightly lower survival rates
- ▶ Nationally, only 1 / 3 of firms survive 6 years from inception

# Questions?